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***Executive Summary***

At the en banc hearing in February of this year, several panelists provided a detailed overview of the cause of recent USF growth – competitive eligible telecommunications carriers. Competitive entry that is motivated only by the possibility of universal service support based on other carriers’ costs does not serve the public interest in a prudent manner. The recent rapid rise in CETC support has borne out that the USF is a scarce national resource that should be monitored in order to meet the public interest.

One of the reasons that universal service is working today is that virtually all customers are accounted for within some eligible carrier’s service territory. These “carriers of last resort” (COLR) stand ready to serve even the most remote and isolated customers.

A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. Their cost structures are not the same. To allow a wireless CETC to receive the same amount of funding as the wireline carrier, without any reference to their cost structures, is artificial.

GVNW Consulting, Inc. supports the Joint Board’s interim recommendations.

## **INTRODUCTION AND BACKGROUND**

GVNW Consulting, Inc. (GVNW) is a management consulting firm that provides a wide variety of consulting services, including regulatory and advocacy support on issues such as universal service, intercarrier compensation reform, and strategic planning for communications carriers in rural America.

The purpose of these comments is to respond to the Notice of Proposed Rulemaking that requested comment on the recommendation of the Federal-State Joint Board on Universal Service (Joint Board) that the Commission take immediate action to “rein in the explosive growth” in high-cost universal service support disbursements. The Joint Board has requested specific comments on their recent recommendation that the Commission impose an interim, emergency cap on the amount of high-cost support that competitive eligible telecommunications carriers may receive.

GVNW Consulting, Inc. supports the Joint Board’s interim recommendations as detailed in the following comments.

**THE SHORT-TERM RECOMMENDATION IS FOCUSED ON THE CURRENT PROBLEM**

At the en banc hearing in February of this year, several panelists provided a detailed overview of the cause of recent USF growth – competitive eligible telecommunications carriers. Competitive entry that is motivated only by the possibility of universal service support based on other carriers’ costs does not serve the public interest in a prudent manner. The recent rapid rise in CETC support has borne out that the USF is a scarce national resource that should be monitored in order to meet the public interest.

On March 1 of this year, Commissioner Copps testified before the Senate Commerce Committee on the topic of USF reform. In recommending that the identical support rule be eliminated, he stated in part: “...*the time has come to put an end to the irrational and costly system of supporting wireless carriers based on the cost of wireline incumbents.*”

The Joint Board recommendation seeks to address in the short term the cause of the current USF problem, while the Joint Board and Commission work diligently under a tight timeframe to develop a long term solution that meets the needs of all parties.

## **THE TIMEFRAME RECOMMENDED PROVIDES AN OPPORTUNITY TO CRAFT A BALANCED LONG-TERM SOLUTION SET**

Due to the nature of the current USF dilemma, the recommendation offered by the Joint Board is intended to be a short-term solution. The goal of relatively rapid action towards a long-term solution is ambitious. For instance, one of the proposed solution sets is to refine cost modeling techniques. Any new model development will need to be validated against both urban and rural circumstances, and rural inputs to the model would need to be verified as reasonable.

History has shown us that this process for the Synthesis Model took roughly 24 months. It is reasonable to expect a similar time frame, or perhaps an even longer one considering the additional steps now required<sup>1</sup>, notwithstanding the shorter timeframe desired by the Joint Board.

### Auditability and accountability are key components of any approach

Whatever approach is recommended and ultimately implemented should include provisions so that the method is both able to be reviewed or audited by third party reviewers and requires the CETCs to be accountable for the use of any support provided. Such a provision would provide much needed regulatory parity, as incumbent local exchange carriers are already subject to auditability and accountability as a part of the current rate-of-return regulatory<sup>2</sup> environment.

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<sup>1</sup> With increased competition between network providers, the sensitivity of cost data has increased and it is likely to be more difficult to gather such cost information from non-proprietary sources than it was when the Synthesis Model was developed.

<sup>2</sup> ILECs are subject to oversight, since the overarching principle that the Commission adheres to is that rate-of-return carriers are entitled, as a matter of law, to a full recovery of their costs in providing interstate services.

## **THE RECOMMENDATION PROPERLY REBALANCES THE COMPETITIVE EQUATION**

The Joint Board recommendation returns some much needed balance to the current regulatory paradigm. Treating carriers that do not have an obligation to serve all customers similar to those that do have that costly obligation has contributed to the current USF problems. One of the reasons that universal service is working today, at least with respect to service provision, is that virtually all customers are accounted for within some eligible carrier's service territory. These "carriers of last resort" (COLR) stand ready to serve even the most remote and isolated customers.

This CETC problem has been building for several years. Three years ago<sup>3</sup>, Commissioner Adelstein addressed USF issues in the following manner: "*A large number of CETCs are wireless carriers. Wireline and wireless carriers provide different types of services and operate under different rules and regulations. Their cost structures are not the same. To allow a wireless CETC to receive the same amount of funding as the wireline carrier, without any reference to their cost structures, is artificial.*"

The Joint Board and Commission have an opportunity in this instant proceeding and its companion docket to craft solutions that will meet the statutory mandate of Section 254 for the next decade. We applaud the Joint Board and Commission for addressing these difficult challenges.

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<sup>3</sup> OPASTCO 2004 Annual Winter Convention

GVNW Consulting, Inc.  
Comments in WCD No. 05-337 and CCD No. 96-45  
June 6, 2007

Respectfully submitted

Via ECFS on 6/4/07

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